



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

**Date:** 2/17/2004

**GAIN Report Number:** HR4003

## Croatia

## Tobacco and Products

## Annual Report

## 2004

**Approved by:**

Sarah Hanson  
U.S. Embassy

**Prepared by:**

Andreja Misir

---

**Report Highlights:**

Croatian tobacco and cigarette production, imports, and exports are stable. Tobacco imports from the United States have stabilized between 400 and 600 MT per year. One anticipated change that could influence all aspects of tobacco and cigarette production and trade is the acquisition of Trvornica Duhana Rovinj (TDR) by British American Tobacco or Philip Morris. Some Croatian production could move to Yugoslavia as part of the deal. This reports contains adjusted cigarettes and tobacco PS&D tables for 2002 and 2003, as well as PS&D forecasts for 2004.

---

Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Vienna [AU1]  
[HR]

---

## Production

In 2003, Croatia had about 5,300 hectares (ha) of tobacco. In 2004, area is expected to remain almost the same. Total imports were about 4600 MT, and of that 50 MT came from the United States (final import/export numbers will be known in March). Production remains concentrated in the Slavonia region, and in 2004 production is expected to be over 11,000 MT dry weight. Two types of tobacco are grown, Virginia and Burley. Virginia accounts for between 88-90 percent of acreage, and Burley accounts for between 10-12 percent of acreage. Tobacco processing companies enter into production contracts with 2000 to 2500 farmers annually. The majority of farms are small (averaging four hectares) and only 15 percent are considered "large" and have access to modern production methods. In the past few years, some production technology and expertise has been imported from Italy, including the use of hydroponics for seedlings.

The Tobacco Factory (TDR) in Rovinj owns three of the four Croatian firms. These three firms are: "Kutjevo" from Kutjevo, "Virzinija" from Virovitica, and "Duhanprodukt" from Podravina. The fourth tobacco producing company, "Duhan" from Slatina, is in theory independent but their only market at this time is TDR, and from 2004 it will be British American Tobacco (BAT). This happened because by the end of 2003 British American Tobacco received a new operating license from the Ministry of Agriculture after three years of futile attempts to start the production.

## Production Policy

In the beginning of 2002, the Ministry of Agriculture proposed decreasing state subsidies for several agricultural products including tobacco. The proposal did not pass the Croatian Sabor (Parliament). In 2002, the Croatian Parliament passed new Law on Subsidies in Agriculture (the text can be find at <http://www.nn.hr> in Governmental Gazette NN 87/02,). This law sets the subsidy level at Kn5/kg (\$0.8/kg) for all tobacco. Subsidies are paid after the season by the end of February.

## Trade

Imports of tobacco from the United States have stabilized between 400 and 600 MT per year. Market demand and production are stabilizing and the imports are expected to stabilize at present levels. Exports may increase if BAT buys TDR and opens the Yugoslavian market to TDR.

In 2003 TDR (Croatian Tobaccos) was paying its suppliers an average price of Kn13.5/kg (\$) with state premium of Kn5/kg (\$0.8/kg).

## Trade Policy

Tobacco and tobacco products face no quantitative restrictions. Croatia is a member the WTO, EFTA and CEFTA. Membership in these organizations has helped to liberalize trade. Countries with which Croatia has free trade agreements do in some instance have preferential access for tobacco products.

Free access is allowed to EU for the following: 24021000 (cigars and cigarillos with tobacco); Macedonia for following: 24013000(tobacco refuse), 24021000(cigars and cigarillos with tobacco), 24029000 (the rest), 24031010 (three rest mfg tobacco in original pck. metto 500g), 24031090 (the rest), 24039910 (homogenized or reconstructed tobacco), 24039990 (the rest); and Bosnia and Herzegovina for all products in tariff range 2401 - 24039990 except 24011041, 24011060, 24012041, 24012060, 24039100.

Tariff rate quotas are given to:

#### EU

for 2401 TRQ 220 MT (duty in said quota 70% from MFN)

for 240220 and 24029000 TRQ 30 MT (duty in said quota 0, duty outside quota 70% from MFN)

for 240310 TRQ 36 MT (duty in said quota 0, duty outside quota 70% from MFN)

#### Hungary

for 240110 and 240120 TRQ 116MT (duty in said quota 11.5%)

#### Macedonia

for 240110 TRQ 2,500MT (duty in said quota 0, duty outside quota 50% from MFN)

for 240220 TRQ 180MT(duty in said quota 0, duty outside quota 50% from MFN)

#### Tobacco and Cigarette Tariffs for 2004

Tariff item number	DESCRIPTION	Measure unit	Duty rate (%)
2401	Unmanufactured tobacco; tobacco refuse:		
240110	- tobacco, not steamed/stripped:		
24011010	- - - hot air dried tobacco Virginia type	Kg	20
2.401010	- - - -ex. aromatic	Kg	5
24011020	- - - light colored tobacco, air dried Burley type (including Burley hybrids)	Kg	20
2.401102010	- - - - ex. aromatic	Kg	5
24011030	- - - light colored tobacco, air dried Maryland type	Kg	5
	- - - smoked tobacco:		
24011041	- - - - Kentucky type	Kg	free
			5

24011049	- - - - the rest	Kg	
	- - the rest:		
			5
24011050	- - - light color, air dried tobacco	Kg	
			free
24011060	- - - sun dried tobacco, oriental type	Kg	
			5
24011070	- - - dark colored, air dried tobacco	Kg	
			5
24011080	- - - air dried tobacco	Kg	
			20
24011090	- - - the rest tobacco	Kg	
240120	- tobacco, partially or totally stripped:		
			15,6
24012010	- - - Virginia type air dried tobacco	Kg	
2.01201010	- - - - ex. aromatic	Kg	5
			16,2
24012020	- - - Burley type, light colored, air dried tobacco (including Burley hybrids)	Kg	
2401202010	- - - - ex. aromatic	Kg	5
			5
24012030	- - - Maryland type, light colored, air dried	Kg	
	- - - smoked tobacco:		
			free
24012041	- - - - Kentucky type	Kg	
			5
24012049	- - - - the rest	Kg	
	- - the rest:		
			5
24012050	- - -air dried, light colored tobacco	Kg	
			free
24012060	- - - tobacco dried on sun, oriental type	Kg	
			5

24012070	- - - air dried, dark colored	Kg	
	tobacco		
			5
24012080	- - - air dried tobacco	Kg	
			5
24012090	- - - the rest	Kg	
			20
24013000	- tobacco refuse	Kg	
2402	Cigars, cigarillos and cigarette from tobacco and tobacco substitutes:		
			15
24021000	- cigars and cigarillos with tobacco	1 000 kom	
240220	- cigarette with tobacco:		
			38
24022010	- - with content of condiments	1 000 com	
			38
24022090	- - the rest	1 000 com	
			35
24029000	- the rest	Kg	
2403	The rest of mfg. tobacco		
240310	- smoking tobacco	kg	
24031010	- in orig. pck.		36
24031090	- -the rest	kg	36
24039100	- - homogenized or reconstructed	kg	free
240399	- the rest	Kg	20
			20
24039910	--tobacco for chewing ...		
24039990	- the rest	Kg	

## Production

Cigarette production in Tvornica Duhana Rovinj (TDR) will reach a production level of 15 billion cigarettes. All cigarettes are filter tipped and there are many brands in light and ultra light styles.

Croatia's only cigarette producing company in 2003 was TDR that owns cigarette plants in Rovinj and Zagreb. At the end of 2003, and just before the elections (so they can have votes from Zadar BAT employees), Ministry of Agriculture (old Government) renewed working license for BAT factory in Zadar.

## History of the British American Tobacco Case:

TDR tried to buy a plant in Zadar, but in 1999 British American Tobacco bought 81 percent of the Zadar shares. In spite of that, TDR had a monopoly position because the Ministry of Agriculture has not issued a production license for the Zadar factory and is not approving BAT's cigarette brands as being of high enough quality for release onto the market. After four years of struggling with Ministry and TDR, BAT reportedly considered leaving the Croatian market.

TDR in 2002 bought Greenfield sites Vojvodina (Yugoslavia) with the intention of opening a cigarette factory there. Since Yugoslavia is still waiting with their Tobacco Law TDR stopped construction work on the plant. Yugoslavian politicians are more willing to open the market to BAT, and TDR is more and more orientating to purchase of properties in Croatian tourism sector so the rumors that BAT or Philip Morris will soon buy TDR's cigarette plant in Rovinj are getting stronger. With BAT's or Philip Morris's acquisition of TDR's cigarette plant the legal access to the Yugoslavian market would be instant for the Rovinj plant.

## Consumption

Consumption is between 7 - 9 billion cigarettes annually, and Croatians spend three percent of their income on tobacco. Out of a total population of 4.4 million, Croatia has over one million smokers and only 2 percent of smokers quit smoking each year. Cigarettes account for 95 percent of all tobacco consumption, and Light cigarettes are about half of the market. The overall cigarette market generates about \$15 million in annual profits.

Nearly 15 percent of consumption is estimated to be supplied by the "black market". Illicit trade is high in part because Croatia has higher prices than surrounding countries, due in part to the structure of the excise tax.

Cigarette retail prices range from Kn9 to Kn17 per pack (\$1.46 – 2.76 per pack). Industry sources believe that VAT and excise taxes make up about 75 percent of the retail price of a pack of cigarettes (one in every eight kuna in Governmental budget comes from cigarette sales).

One third of sales are via specialized companies with their own wholesale and retail networks. 150 wholesalers service the remaining retailers, representing approximately 12,000 stores.

## Anti-Smoking Measures

In 2002, Croatian TV started with an antismoking campaign initiated by Ministry of health and sponsored by Croatian TV and the Australian Embassy. The campaign ended by the end

of 2002. In November 1999, Croatia implement "The Law on Restricted Use of Tobacco Products" (Official Gazette 128/99). In 2003, Ministry of Education and Sport published a regulation on activities in schools for educating children about damage that tobacco products do to the human health.

The Law:

- Prohibits smoking at indoor meetings and other working areas except in those which have sign that smoking is allowed
- Prohibition on selling of cigarettes to persons younger than 18 years
- Prohibition on selling from automatic machines
- Prohibition on advertising tobacco and tobacco products
- Prohibition on smoking in health and education institutions
- Requirement that all cigarette packs have the health warning: "Smoking is harmful to health" and one of the following warnings:
  - Smoking causes cancer
  - Smoking during pregnancy is dangerous for children
  - Smoking causes heart attacks and strokes
- Smoking shortens life
  - Nicotine and tar contents per cigarette are also required

In the future Croatia will probably comply tobacco legislation with EU legislation, which will result in strict legislation regarding health hazards caused by smoking.

Trade

Foreign brands make up 15 percent of the legal cigarette supply, and the majority of imports are handled by TDR. The cigarette industry pays an estimated six to seven percent of total taxes in Croatia, or about 3.2 billion kuna (\$520 million) per year.

Trade Policy

See trade policy of Tobacco.

Policy

Two main laws cover tobacco products. The Tobacco law ( Governmental Gazette 69/99) and the Law on Excise Taxes For Tobacco Products (Governmental Gazette 136/02).

According to these two laws, cigarettes are divided into three groups:

- A popular group
- B standard group
- C extra group

- A includes cigarette based on a mixture with at least 60 percent non aromatic, large leaf tobacco (types of Virginia hot air dried, Burly dried in shade) of which at least 25 percent is from lower purchased classes or from their substitutes (tobacco foil or manufactured leaf veins). Cigarettes can be with or without filter and they are packed in soft packs, and are intended primary for the Croatian market.
- B includes cigarettes based on a mixture with at least 60 percent non-aromatic large leaf tobacco (types Virginia, Burley etc.) or their substitutes (tobacco foil or technologically manufactured leaf veins). They are filter tipped and packed in hard packs and are intended primary for the Croatian market.

— C includes all others.

Excise taxes for different groups:

Excise Tax basis is following:

For cigarettes 20 cigarettes in one pck.

For tobacco 1000gr.

For cigars one cigar

For cigarillos 20 cigarillos in pck.

Group A - 5.00 kuna

Group B - 5.40 kuna

Group C - 8.90 kuna

Excise taxes are also paid for:

Tobacco - 38.00 kuna

Cigars - 1.10 kuna

Cigarillos - 4.40 kuna

The above laws also include regulations about the registration of tobacco products, tobacco farmers, tobacco product producers, exporters, importers and the classification and registration of tobacco products.

For the registration of tobacco product, samples are examined and tested (touched, smoked, etc) by a special commission. It is a subjective procedure.

#### Labeling Requirement

Cigarette box labels must include:

- product name
- nicotine contents
- tar contents
- producer's name and address
- name and address of importer (for imported cigarettes)
- number of pieces in box, written in Croatian language

Exchange rate on 02/27/04

\$1 = Kn 6.15